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The Value of Home-Grown Companies

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**GREATER
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OF COMMERCE

The Value of Home-Grown Companies

By Zenia Z. Kotval, MRP and John Mullin, Ph.D., AICP

Over the past decade we have been involved in more than fifty economic development projects in cities and towns across the Pioneer Valley. These have ranged from the revitalization of older industrial areas in Springfield, the development of incubator facilities in Chicopee, the reuse of the Waverly Mill in Adams to the siting of a new industrial park in Deerfield. In each case we are almost always questioned about how a community could encourage the next Pratt and Whitney Digital or BMW plant to come to our region. Upon hearing the question, we point out that there are only 1200 major plant location decisions made in a typical year and that there are 20,000 industrial development commissions chasing these companies. We also point out, that all things considered, home-grown, home-owned businesses bring a comprehensive set of assets to a community that are most often of greater value than, for example, a branch plant of a multinational company. We base our perspective on the following six points:

- **Home-grown companies tend to stay local.** Most local companies are founded by what we call "entrepreneurs of necessity." These are men and women who frequently have been outplaced but have marketable skills. Their homes and families are here in the Valley and they have no interest in leaving. Thus, they take their skills, create a company and contribute to the rebirth of the region's economy. These firms frequently do not grow very large. However, when one adds up their collective workers, payrolls and property tax, they are a potent economic force.

We have seen these forms emerge from, among others, the downsizing of General Electric, Pratt and Whitney, Bendix and Columbia Bicycles. We expect more to follow.

- **Home-grown companies tend to spend locally.** Not long ago we were asked to determine the impact of Yankee Atomic (Rowe) on the economy of Western Massachusetts. This company of 260 employees, and an annual payroll of \$12,580,687 has a policy of purchasing its goods and services locally. In calendar year 1991, it spent \$3,847,906 on 241 contracts in 29 communities throughout Western Massachusetts. Furthermore, its workforce contributed to the economy. For example, in one year Yankee workers bought 30 televisions, 19 refrigerators and spent \$98,650 of clothing in the region. This practice can also be noted in our smallest firms. During the late 1980's, we surveyed more than 150 firms in Western Massachusetts that manufactured a product, employed less than 20 workers and were less than ten years old. These firms purchased more than 80% of their goods and services within Western Massachusetts.

- **Home-grown companies tend to invest locally.** In other words, the profits from these firms traditionally were placed in local banks. These banks could then turn around and provide further capital for other local firms. While the current trend

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Home-Grown Business (Continued from Page 1)

toward the national consolidation of banks has eroded this practice, the fact remains that the profits have a greater tendency to stay in the Valley than if the firm's headquarters was located afar

- **Home-grown companies use older space.** In the Valley at this moment, there are more than 2,000,000 square feet of vacant red brick mill space (this is the equivalent of more than three of Boston's Prudential Towers.) These mills are as much a part of our cultural heritage as our economic base. Unfortunately they are less and less suitable for the needs of our large firms. Yet, often at minimal cost (i.e. less than \$2.00 per square foot), they can be occupied by smaller firms. We have seen this occur quite successfully in Chicopee, Holyoke and Greenfield. By so doing, these firms help to keep these buildings active, protect our heritage, and keep jobs in our traditional industrial areas (as opposed to moving onto farm lands in fringe areas).

- **Home-grown companies are excellent niche marketers.** By staying lean and becoming reactive to the marketplace, these companies have the means to adapt quickly. One of the most impressive statistics we have seen is that, according to MIT's David Birch, 87% of the dollar value of all exports from the United States comes from small firms. As well, in our research, we have found that these small firms have had a great degree of success in sniffing out the shifts from defense goals to civilian markets and adapting their products to the new marketplace.

- **Home-grown companies tend to cluster along industrial lines.** As Harvard's Michael Porter has noted, industrial clustering places a region in a strong, positive growth position. We have seen this with the plastics industry in Berkshire County and the machine tools industry in Greater Springfield. There is a great degree of synergy that occurs through clustering.

In fact, the greater the involvement of the owner/operators of these firms with their peers, the greater the success of their business. Berkeley's Anna Lee Saxaman, in her recent analysis of the Silicon Valley, suggests that one of the major factors in the Valley's almost endless growth was the culture of communication: the sharing of information, the discussion of new techniques and the desire to mutually expand markets along industrial sectors.

We do not mean to belittle efforts to attract new firms from outside the region for, as occurred with Marillot in Whately and Sun Computer in Chicopee, new firms do move into the Valley from other regions. We also know that a region's economy works best when there is a healthy mixture of large and small firms. Most importantly though, it is critical to adopt a nurturing culture that protects, supports and provides the services required to assist home-grown companies to prosper. In the long run, it is these firms that will help to maintain our region as a special place.

Zenia Kotval is the Project Director and John Mullin is the Director of the Center for Economic Development at the University of Massachusetts.

Chapter 21 E - Important to Both Large and Small Businesses

On January 7 1993, the Chamber sponsored a well-attended luncheon program regarding the redesign of Chapter 21 E, the state superfund law. Peter H. Barry and Christopher B. Myhrum, partners in the Springfield law firm of Bulkley, Richardson and Gelinas, highlighted the legislative and administrative processes and substantive changes attending the overhaul of Massachusetts' program to identify, report, assess and remediate releases of hazardous materials and oil.

A Department of Environmental Protection public hearing of the draft regulations is scheduled for 6:30 p.m. on February 16, 1993 at Scibelli Hall, Springfield Technical Community College. Public comment can be in the form of written or oral testimony. Chamber members should try to learn as much as possible about how the regulations might affect them individually and let their concerns be known to DEP. The Chamber can be a vehicle to amplify individual member concerns, and Bulkley, Richardson and Gelinas has offered to provide pro bono legal assistance in organizing and presenting comments.

Mr. Barry introduced Chris Myhrum, Coordinator of Bulkley, Richardson and Gelinas' Environmental Practice Group, who spoke on selected subjects from the range of substantive and procedural changes proposed to the waste site identification and cleanup process. He noted that the legislature had not changed for the most part Chapter 21E's liability scheme or the ultimate standard for cleanup achieving a level of no significant risk. Rather, the creation and involvement of Licensed Site Professionals to take the place of DEP in much of the decisionmaking about site cleanup and changes to the MCP process are intended to streamline the process for many sites from problem discovery through resolution.

Mr. Myhrum expressed concerns about many of the proposed changes and the practical limitations on what may in theory appear to be a streamlining approach. He especially encouraged those who are currently involved in site cleanups to become familiar with the proposed changes and, in particular, DEP's proposed transition rules for moving sites from the old MCP to the new MCP system when implemented.

Chamber members are encouraged to contact Charles Hill at 787 1555 with their concerns or to learn more about the 21E.